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The Economic Consequences of Pierre Elliott Trudeau

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by

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me that I am missing an “Acknowledgement” section; and as I am writing this I now see this is the most important section of my research thesis.

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Introduction

The Red Machine and Pierre Elliott Trudeau

John Maynard Keynes, one of the finest economists of the twentieth century, predicted that there will be one day when economists will not be looked as the guiders of economic thinking and will be placed below dentists in the social structure.¹ By the 1960s and 1970s, Keynes's statement proved to be right. Economists were pushed to the side and politicians began to be the economic guiders. The situation in Canada was no different; Canadians elected the federal Liberal leader Pierre Elliott Trudeau in 1968, and he promised to begin his Just Society by using different economic policies. His Just Society promoted equality of opportunity for all Canadians, not just the wealthy.² This study will show that Trudeau's Just Society did not work: the federal government's economic polices hindered economic growth and divided Canadians.

One of the issues while doing research on Trudeau's economic policies is the limited amount of literature on his economic decisions during his time in

1. Richard Gwyn, *The Northern Magus: Pierre Trudeau and Canadians* (Toronto: McClelland and Stewart Limited, 1980), 177.

2. Pierre Elliott Trudeau, "The Values of a Just Society," in *Towards a Just Society: The Trudeau Years*, ed. Thomas S. Axworthy and Pierre Elliott Trudeau (Ontario: Penguin, 1990), 359.

power. Much of the literature on him focuses on the Canadian Constitution and the Charter of Rights. Historians have tended to shy away from his economic policies. Throughout the eleven books he co-authored or edited,³ there is not much on his economic policies. His *Memoirs* do shed light on some of the economic decisions he made as prime minister, but he is defensive and does not admit his mistakes. One of the go-to historians on Trudeau is professor John English; he does not attack Trudeau's economic policies but he does note that Trudeau became obsessed with Québec's separatist challenge in the middle of the 1970s.⁴ It is important to note that Trudeau did manage to beat the Québec separatists by convincing enough citizens in Québec to not leave the Canadian federation. In addition, what Trudeau did for Québec was amazing. Before Trudeau came into power, the Francophone citizens of Canada played a minor role in the Canadian sphere of influence. Francophones did not have any significant economic influence and did not have much to say in the federal bureaucracy,⁵ but Trudeau did manage to give a voice for Francophones living in Canada after he got elected as prime minister.⁶ However, journalist Richard Gwyn says Trudeau did not get much done during his time in power.⁷ George

3. Bob Plamondon, *The Truth about Trudeau* (Ottawa: Great River Media, 2013), 7.

4. John English, *Just Watch Me: The Life of Pierre Elliot Trudeau 1968-2000*, vol 2. (Toronto: Vintage Canada, 2009), 423.

5. Kenneth McRoberts. "The Sources of Neo-Nationalism in Quebec," in *Quebec Since 1945: Selected Readings*, ed. Michael D. Behiels (Toronto: Copp Clark Pitman, 1987), 83.

6. This is one of the greatest achievements for Trudeau. I applaud him for the amazing work he did for the Francophones living in Canada.

7. Gwyn, *The Northern Magus*, 15.

Radwanski, a journalist sympathetic to Trudeau, admits that up until 1979, Trudeau was an “unfulfilled” prime minister.⁸ I disagree with both Gwyn and Radwanski. Between 1963 and 1970, the FLQ, a nationalistic terrorist organization, managed to cause chaos in Québec and Ottawa by exploding hundreds of bombs, robbed numerous of banks and gun stores, and threatened government officials.⁹ On October 1970, Trudeau responded to the kidnapping and murder of Québec minister Pierre Laporte by passing the *War Measures Act*.¹⁰ The *War Measures Act* implemented martial law by the federal government; in essence martial law restricts the laws devised by the provinces and municipalities, but replaces them with the laws of the federal government; these laws are imposed by the army. The army and the RCMP went into Québec with the mandate to completely crush the FLQ. Trudeau’s tough response in the October crisis of 1970 ended violent separation and the prospect of civil war. He used the powers of the state to keep the Canada united;¹¹ and he continued to use the state as a vital means for obtaining a Just Society.

This is where I find a fault with Trudeau’s time in power; indeed, he paved Canada forward as a country politically by stopping the FLQ, gave Canada a Constitution and a Charter of Rights, gave a voice for Francophones (all wonderful accomplishments), but his federal Liberal government bureaucrats used

8. Gwyn, *The Northern Magus*, 15.

9. Dominique Clément, “The October Crisis of 1970: Human Rights Abuses under the *War Measures Act*,” *Journal of Canadian Studies* 42, no. 2 (Spring 2008): 164, <https://muse.jhu.edu/article/467030>.

10. Clément, “The October Crisis,” 165.

11. Gwyn, *The Northern Magus*, 55.

so much money to implement their Just Society. While Trudeau was busy battling the issue of Canadian unity, his federal Liberal bureaucracy made terrible economic decisions; and as prime minister, the blame falls on him. This study agrees more with Bob Plamondon's *The Truth About Trudeau* and Brian Lee Crowley's *Fearful Symmetry*; both books attack the spending policies of the federal Liberals during the 1970s. One of the key issues, they argue, is government spending does not help the poor areas, but make poor areas become poorer. In the view of Plamondon and Crowley (and in mine), government interference in the economy will nine times out of ten create more problems than solutions. This study will look at how Trudeau's federal Liberals intervened in the economy multiple times during the 1970s and caused havoc and chaos for Canadians and the private sector.

Chapter 1

Intervention in the Economy

God blessed Canada with many resources such as oil. When Trudeau came to power in 1968, he failed to forge an alliance with Western Canada, the area with most of the oil. The federal government began to attack Alberta and the multinational oil companies. Almost all the companies digging for oil in Canada were foreign owned and the federal government hoped to change this. New federal government departments were created to investigate foreign ownership and investment. The federal government in 1973 alienated Western Canada causing regional resentments between fellow Canadians. A major problem with Trudeau's economic policies from 1970 to 1973 was his endorsement of the nationalist and environmentalist movement created by modern twenty-first century progressive Canadians. This chapter will show how the federal government intervened in the Canadian economy and caused problems and resentments between Canadians.

The Oil Crisis

Canada always had a complex system for its energy policy. The Progressive Conservative government led by John Diefenbaker intervened in the energy sector and created two prices for oil in 1961. He called it the National Oil Policy (NOP). The NOP intended to help Alberta's oil market by dividing Canada into two markets. He separated Canada at "The Ottawa Valley", also called the Borden Line. Any province east of the Borden Line imported oil from the Organization of the Petroleum Exporting Countries (OPEC). Provinces west of the Borden Line bought the more expensive oil from Alberta. Trudeau's political advisor Marc Lalonde describes the NOP: "The aim of the National Oil Policy was to promote the Alberta oil industry by securing for it a protected share of the domestic market".¹ Diefenbaker tried to help Alberta by forcing Western Canada to buy the more expensive oil extracted in Alberta. Atlantic Canada benefited from the NOP, because of the cheaper oil imported from OPEC. Following the Yom Kippur War in the Middle East, however, OPEC raised the price of oil, which created what is now called the "October 1973 Oil Shock". Due to the U.S. supporting Israel in the Yom Kippur War, OPEC used "their oil reserves as a weapon to pressure Western diplomacy to tone down its support of Israel".² As a result, Western nations such as Canada who depended on OPEC for oil suffered due to the rising world prices for oil. All OPEC needed to do was cut production

1. Marc Lalonde, "Riding the Storm: Energy Policy, 1968-1984," in *Towards a Just Society: The Trudeau Years*, ed. Thomas S. Axworthy and Pierre Elliott Trudeau (Markham: Penguin, 1990), 51.

2. Allan Hustak, *Peter Lougheed: a biography* (Toronto: McClelland and Stewart, 1979), 158.

and the world price for oil would rise. In 1973, that is exactly what happened: OPEC reduced the production of oil by 25 per cent. With less oil supplied but more oil demanded by foreign nations, the world price of oil soared.³ On 1 January 1973, the world price for one barrel of oil was 2.59 dollars in US currency. The Yom Kippur War ended in late October 1973. On 16 October, the price of oil almost doubled to 5.11 dollars. The consequences of the halted production of oil by OPEC began to take effect in December. Thus the world price for oil doubled from 5.11 to 11.65 dollars as 1973 ended. The NOP became crashing down on the provinces importing oil from OPEC.

Provinces east of the Borden Line became overly dependent on imported oil. As long as oil from OPEC remained cheap, then the NOP worked. However, once prices soared in late 1973, the NOP crumbled and wreaked havoc in Canada's energy sector. Canada and other Western nations imported too much oil from OPEC. By 1972, many of the leading industrial nations imported 64 per cent of their oil from the Middle East.⁴ In addition, the U.S. began to falter in its oil production as well. The 1950s saw the U.S. produce about 50 per cent of the world's oil. However, by 1973, U.S. oil production fell to 20 per cent.⁵ This gave OPEC the upper hand; it realized that Western nations such as the U.S. and Canada depended on its oil supplies. At the end of the day, the NOP was a price

3, Richard Gwyn, *The Northern Magus: Pierre Trudeau and Canadians* (Toronto: McClelland and Stewart Limited), 152.

4. James E. Gander and Fred W. Belaire, *Energy Futures for Canadians: Long Term Assessment Program* (Ottawa: Supply and Services Canada, 1978), 12.

5. Gander and Belaire, *Energy Futures*, 14.

control policy intended to subsidize the domestic price for oil. The basic problem for Canada during the 1960s and 1970s was that the worldwide forces of globalization⁶ were increasing but Canadian federal economic policies took no account of the fact that the Canadian economy is a small open economy with very little influence on the global market. Vastly larger economies like the U.S. have much more impact on the world economy, world prices, and world output compared to Canada. Diefenbaker tried to intervene in the Canadian economy to help Alberta, but OPEC showed that in 1973 how fragile the Canadian economy is. In 1973, Trudeau tried to devise a new oil policy to help Atlantic Canada but he failed to help Alberta.

In July 1973, Calgary hosted an economic conference called the “Western Economic Opportunities Conference” and Trudeau attended. He wanted to show his support for Western Canadians and remind his audience that the federal government intended to work with them to assure all Canadians benefited from the vast amount of oil Western Canada had. At the conference, Trudeau praised the politicians representing the four western provinces. He tried to assure the attendees that he was on their side.⁷ However, once he mentioned “national policies”, attendees became alarmed. National policies hinted that Trudeau’s federal government wanted to control the Canadian price of oil independently of the world price. The attendees knew that Central Canada and Eastern Canada

6. Richard P. Bowles and James L. Hanley, Bruce W. Hodgins and George A. Rawlyk, *Canada and the U.S.: Continental Partners or Wary Neighbours?* (Scarborough, Ontario: Prentice-Hall of Canada, 1973), 26.

7. John English, *Just Watch Me: The Life of Pierre Elliott Trudeau, 1968-2000*, vol.2 (Toronto: Vintage Canada, 2009), 223.

depended on low world prices for oil. With many of his votes coming from these two areas, in their view, any national oil policy from Trudeau meant that the Western Canada would not be allowed to sell oil at world prices if it ever escalated like it had in 1973. The stage was set for a confrontation between the federal government and Western Canada.

After the conference, Trudeau restricted Alberta from selling oil at world prices causing resentment. On September 1973, the Minister of Energy, Mines, and Resources, Donald Macdonald, called upon Bill Dickie, a government official representing the Alberta government to come to Ottawa for a set of talks. Macdonald told Dickie that the federal government planned on imposing an export tax and freezing the domestic Canadian price for oil. Dickie came back to Alberta with news of Macdonald's harsh and demanding proposals.⁸ Trudeau's government froze the price of oil in Canada at 2.20 dollars (US) per barrel. In other words, Alberta had to sell it at that price, well below the world price for oil. However, Albertan Premier Peter Lougheed called Trudeau's two price policy "theft".⁹ In his view, why did Albertans have to pay world prices for other resources imported into Alberta from Central and Eastern Canada?

To further the divide between Western and Eastern Canada, provinces such as Ontario and Québec applauded Trudeau's battle against Alberta. Ontario consumed the most oil out of all the provinces and territories in Canada. Premier William Davis of the Progressive Conservative Party cheered on Trudeau as he

8. Stephen Clarkson and Christina McCall, *Trudeau and our Times: The Heroic Delusion*, vol.2 (Toronto: McClelland & Stewart, 1994), 169.

9. English, *Just Watch*, 226.

managed to get a lower domestic Canadian price for oil. This helped Ontario out since it imported oil from Alberta. The Liberal Quebec premier Robert Bourassa also supported Trudeau's two price policy.¹⁰ Trudeau, Davis and Bourassa did not want the Albertans to sell oil at world prices. However, their views were flawed because they wanted to completely separate domestic Canadian prices from world prices. Western Canada paid world prices for resources coming from Ontario and Québec. For example, products such as automobiles and refrigerators came from Ontario and Québec. In addition, resources such as iron, gold, copper, and other minerals from the Canadian Shield were sold to Western Canada at world prices. Political commentator Bob Plamondon, a man critical of Trudeau's treatment of Western Canada, points out that the price of gold quadrupled in the 1970s benefiting Ontario. Yet the Trudeau government did not impose a price freeze on gold.¹¹ It did not make sense for Western Canada to pay world prices for resources coming from Central Canada, while Central Canada was buying oil from Alberta at a lower price than the world price.¹² Trudeau made an unfair playing field in trade between provinces and divided Canadians.

Trudeau defended his treatment of Western Canada. In his *Memoirs*, he argued: "If one province is very rich and another very poor, my view is that there should be some redistribution of resources, with the federal government in charge of making sure that the distribution is done fairly".¹³ What exactly does he mean

10. English, *Just Watch*, 226.

11. Bob Plamondon, *The Truth about Trudeau* (Ottawa: Great River Media, 2013), 280.

12. English, *Just Watch Me*, 226.

13. Pierre Elliott Trudeau, *Memoirs* (Toronto: McClelland & Stewart, 1993), 290.

by “fairly”? The Albertans did not think the redistribution of wealth was fair. The one flaw with Trudeau’s reasoning is Ontario and Quebec were not poor provinces. However, he was right in saying Atlantic Canada suffered from the increased prices for oil. A possible solution to the problem is the federal government should have continued to subsidize the cost of oil imported into Atlantic Canada from Venezuela. However, at the very least, Ontario and Quebec should have paid world prices for oil. If they did, then the relationship between Western Canada and Eastern Canada might have improved, allowing for the crisis to be resolved earlier, rather than constantly fighting over the price of oil throughout the 1970s. Instead, the federal government went to war against Alberta and tried to take as much revenue from Albertans and redistribute it to Québec and Atlantic Canada. By the end of 1973, “... more than \$70 million was siphoned from the Alberta economy to subsidize Québec and Atlantic Canada which depended on foreign imports for their supply”.¹⁴ The 70 million came from the export tax initiated by the federal government to start limiting the amount of oil Alberta exported.

The federal government’s export tax began to limit oil exports and subtract from Alberta’s revenue collected from royalties on oil sales. In 1973, Alberta expected to export about 30 million barrels of oil that year. However, by the end of 1973 the amount of oil exported fell to 25 million barrels. The federal government expected to receive about 12 million dollars in taxes from the exportation of oil in 1973. Once the export tax was put in place, as 1973 began to

14. Hustak, *Peter Lougheed*, 159

end, the federal government received over 49 million dollars in revenue. Alberta estimated that it would receive more than 114 million dollars in tax revenue from royalties collected when 1973 ended. Instead, they received only 98 million dollars. In short, Trudeau used the oil crisis to rob Alberta from its expected revenues from royalties put on oil sales.¹⁵ The federal government got richer whereas the Albertan government became poorer.

In defence of Trudeau, his federal government had good intentions. It used the export tax to create a department called the Oil Import Compensation Program (OICP). This department subsidized the cost of oil for provinces that imported oil from OPEC. Lalonde illustrates how the OICP worked. “The difference in the prices of imported and domestic oil”, he writes, “was offset by payments to importers through the.... [OICP], which was, in turn, partially funded by the export tax instituted in October 1973”.¹⁶ Some of the funding for the OICP came from tax payers. Atlantic Canada suffered from the high price for oil. It would not have been fair to see fellow Canadians have no energy. Nevertheless, it was not fair for Trudeau to slowly diminish Alberta’s oil exports. His export tax made the lives of Albertans worse because Lougheed provided social programs from the royalties collected on oil sales. But Trudeau’s export tax caused Alberta to lose revenues from the royalties; as a result, Lougheed was not able to provide as much social assistance for Albertans. This caused further resentment between

15. Hustak, *Peter*, 159.

16. Lalonde, “Riding,” 54. There is a typo with Lalonde’s comment. He says the export tax was initiated in October 1973. My research says that it was initiated in September 1973.

Western and Eastern Canada. But Trudeau defended his policies towards Alberta because he wanted to help Atlantic Canada.

The other reason why the federal government wanted to place an export tax on oil sales was it assumed Canada did not have enough oil for the future. In 1973, Canada exported over 800,000 barrels a day into the U.S. Lalonde agreed with Trudeau on the need for the export tax. He writes: “Demand surges south of the border, coupled with regulated prices, could have siphoned off much of Canada’s supply at fire-sale prices, if export restrictions and the export tax had not been imposed”.¹⁷ He goes on to say: “Without these policy changes Canadian reserves would have been rapidly sold into a price-controlled down-market, thereby robbing producers and governments of rents and threatening Canada’s security of supply”.¹⁸ Thus, the federal government agreed to import oil from Venezuela and tried to limit Alberta’s export of oil, hoping that Canada had enough oil as a backup in case Venezuela or another OPEC nation decided to stop selling oil to Canada. In other words, the federal government wanted Alberta to keep the oil in the ground instead of extracting it.

Trudeau wanted to make sure that future generations had enough oil to use. He feared of the U.S. consuming all of Alberta’s oil, however, the federal government failed to conduct adequate research on the oil sands. Macdonald admitted that the federal government did not have enough information on the amount of oil in Canada. Much of their data came from the private sector, but

17. Lalonde, “Riding,” 54.

18. Lalonde, “Riding,” 54.

even that data was hard to get a hold of.¹⁹ In reality, oil companies wanting to extract oil in Alberta are able to extract a total of 160 billion barrels of oil. In addition, Canada has so much oil that if the price of oil gets to a certain point, oil companies can extract over 300 billion barrels a day. That is to say, the higher the price of oil gets, the more recoverable oil can be extracted from Alberta and other parts of Canada. These stats show that in the 1970s, Canada was ahead of Saudi Arabia in the amount of oil available in the world.²⁰ There can never be an infinite amount of resources; one day oil may run out. However, economist Thomas Sowell does not worry about that issue. He states: “Many false predictions over the past century or more that we were ‘running out’ of various natural resources in a few years based on confusing the economically available current supply at current prices with the ultimate physical supply in the earth, which is often vastly greater”.²¹ That is to say the amount of oil available in the world can increase with rising prices.

For example, an oil field in Alberta may not have been profitable at 5 dollars (US) a barrel in 1973. However, the price of oil doubled to 11 dollars (US) a barrel at the end of that year. Now some oil fields became profitable in Alberta; therefore, oil companies could extract more oil, in doing so, increasing the supply of recoverable oil, which would then cause the price to not rise as quickly.

19. G. Bruce Doern and Glen Toner, *The Politics of Energy: The Development and Implementation of the NEP* (Ontario: Methuen Publications, 1985), 91.

20. Thomas Sowell, *Basic Economics: A Common Sense Guide to the Economy*, 5th ed. (New York: Basic Books, 2015), 29. These numbers were collected in the 21st Century, however, it still shows that Trudeau and whoever in his Cabinet assumed that oil was running in Canada were wrong.

21. Sowell, *Basic*, 29.

Furthermore, the exploration of oil increases employment for Canadians. Oil companies need workers to find new oil reserves, and hopefully build more pipelines to ship the oil. The creation of pipelines needs more workers as well. From an economic perspective, the initial storm of high world oil prices may be offset by new oil fields, new pipelines, and lowered taxes for Canadians so that they can pay for the higher world price for oil. In September 1973, however, Trudeau did not allow Alberta to sell oil at world prices. Alberta was robbed of millions of dollars in revenue over false assumptions which claimed that Canada was running out of oil. The federal government was wrong to interfere in the energy sector; it caused problems and resentments between Western and Eastern Canada. Not only did the federal government interfere in the energy sector, but it abused its federal powers.

A world price for oil means that the world market has decided what the world price for oil should be, and the provinces have the constitutional right to sell oil at world prices. The 1867 BNA and the 1929 Resource Transfer Act clearly states that the provinces can do whatever they want with their natural resources, even oil. The 1929 Act mentions that Alberta's resources are protected: "It is desirable that the province of Alberta should be placed in a position of equality with the other Provinces of Confederation with respect to the administration and control of its natural resources".²² That is to say Alberta has the legal right to control the fate of the oil in the ground in its surrounding borders and not the federal government. There are some restrictions, however. World

22. Hustak, *Peter*, 160.

markets determine the price of oil. Provinces have the legal right to sell oil at world prices, which is what they should do: selling oil above the world price would create no buyers and selling oil below the world price would deplete supplies very quickly. Trudeau did not want Lougheed to sell oil at world prices; he thought this was unfair. Lougheed responded by declaring that the 1929 Resource Transfer Act gives him the constitutional right to sell oil at world prices.²³ Both men, Trudeau and Lougheed, continued to wage war against each other, but I think Lougheed had a better argument. For political leaders it is best to follow what the constitution says: and the constitution states that provinces are allowed to control the outcomes of their natural resources including non-renewable resources such as oil. Once Lougheed realized he was not going to win the price battle against Trudeau, he turned to other measure to increase the wealth of Alberta by increasing the royalties place on oil sales.²⁴ The BNA allowed provinces to place royalties on resources extracted by the private sector. Royalties were first used in England. Private investors paid fees to the Monarch to allow their companies to mine lands owned by the Monarchy.²⁵ In the view of Lougheed, multinational oil companies maximized profits for their share-holders and did not truly care for the wellbeing of Albertans. He made it clear to Albertans that he protected their interests by stating one of his objectives as a premier: “Strengthen the control by Albertans over our future and to reduce the

23. Hustak, *Peter*, 161.

24. English, *Just Watch*, 222.

25. W.H. McConnell, *Commentary on the British North American Act* (Toronto: Macmillan, 1977), 349.

dependency for our continued quality of life on governments, institutions or corporations directed from outside the province”.²⁶ He wanted Albertans to know that he cared for them and wanted to show his care by taxing the multinationals.

At first, the federal government wanted Lougheed to increase the royalty rates. They told Lougheed if he did this, then the price freeze on domestic oil would be stopped and Alberta could sell oil at world prices. The deal went sour after OPEC raised the price of oil again in December 1973. Lalonde demonstrates that this caused issues for the federal government. “With the new higher prices”, he writes, “the potential take of the new Alberta royalty regime was enormous. The federal government was faced with a proportionate loss of revenue because oil extraction companies could deduct royalties from their federal taxes”.²⁷ With the rising world prices for oil, Alberta would have reaped in vast amounts of income through royalties. However, the federal government did not want this to happen. It wanted to take as much money away from the Albertans. Trudeau’s battle against Lougheed was terrible for Canada; it divided Canadians and the divide continues to exist to this day. On 6 May 1974, Trudeau won the battle against Lougheed by disallowing companies to write off royalties as being tax deductible.²⁸ Now the federal government was able to tax the multinational oil companies further. Not only was the federal government attacking Alberta, it now

26. Gerald Friesen, *The Canadian Prairies: A History* (Toronto: University of Toronto Press, 1987), 445.

27. Lalonde, “Riding,” 56.

28. Doern and Toner, *The Politics of Energy*, 92.

went after the wealth creators, the multinational oil companies, which saw the rise of economic nationalism in Canada, a very toxic idea.

The Rise of Economic Nationalism

A powerful book rocked the political landscape in 1970. The highly influential book by Kari Levitt called *Silent Surrender: The Multinational Corporation in Canada* set the stage for the rise of economic nationalism in Canada. In 2006, out of 100 books that are considered as highly influential by Canadian authors, the *Literary Review of Canada* ranked *Silent Surrender* as 53rd. In sum, the book managed to fully explain the notions of dependency theory. Levitt's work focussed more on the Caribbean islands, however, she does mention Canada's dependence on the U.S. as an example. She sees Canada as a rich resource country being exploited by multinational companies, primarily ones from the U.S. That is to say the U.S. depends on Canada for its resources. Thus, the U.S. does whatever it can to make Canada dependent on the U.S.²⁹

Latin American economist Theotonio Dos Santos writes of this dependent relationship between countries: "By dependence we mean a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected".³⁰ Both Levitt and Dos Santos tried to prove that nations in Latin America and North America were dependent

29. Paul Kellogg, *Escape from the Staple Trap: Canadian Political Economy After Left Nationalism* (Buffalo: University of Toronto Press, 2015), 59.

30. Theotonio dos Santos, "The Structure of Dependence," *American Economic Review* 60, no. 2 (1970): 231.

on the U.S. for economic expansion. If the U.S. left these nations, they would decline in economic productivity since they were dependent on U.S. companies for jobs and economic security. At the same time, U.S. companies tried to expand their control of certain resources in different countries. Levitt and Santos argue that this expansion by U.S. companies in other countries limited the potential for domestic entrepreneurs to enter certain market sectors.³¹ Here is an illustration: if a small domestic business owner wants to enter the grocery business in her respective country but a U.S. company dominates that industry in her country, then she will face difficulties in entering the grocery business. The more the multinationals controlled, the less the domestic companies controlled. In the view of Levitt and Dos Santos, the resources of a country were like a pie and the U.S. wanted all of it. Levitt's and Dos Santos's dependency theory grew in Canada, which led to the rise of economic nationalism. Some Canadians began to be skeptical of foreign companies in Canada, especially ones from the U.S.

In 1972, the *Toronto Star* conducted a poll asking Canadians questions on U.S. involvement in the Canadian economy. They concluded that 47 per cent of Canadians thought that U.S ownership of Canadian companies hurt the Canadian economy. The reason for the high percentage was that some Canadians preferred Canadian entrepreneurs to control the economy rather than the Americans.³² In the energy sector, for example, 99 per cent of the companies extracting oil in

31. Kellogg, *Escape*, 58.

32. Toronto Star. "How Canadians feel about U.S Investment," in *Canada and the U.S.: Continental Partners or Wary Neighbours?* ed. Richard P. Bowles and James L. Hanley, Bruce W. Hodgins, George A. Rawlyk (Scarborough, Ontario: Prentice-Hall of Canada, 1973), 13.

Canada were foreign owned.³³ The economic nationalists saw these numbers and began to tell the federal government to do something. In the 1972 federal election, for example, Trudeau gained a minority government largely in part because of the rise of the economic nationalists. He did not listen to these radical voices at first. After 1972, however, to stay in power he wrongfully listened to them and began to favor their terrible views.³⁴ The economic nationalists began to start to not be so broad in their hatred of foreign companies; in other words, they started to point fingers at certain nationalities which in their view was hurting certain sectors of the Canadian economy: and their fingers began to point south of the Canadian border.

Professor Thomas Hockin, an economic nationalist in the energy sector, described in 1972 his stance on Americans trying to do business in Canada: “Anti-Americanism motivates some nationalists in their disapproval of energy deals with the United States. They have no wish to see Canadian energy providing the military-industrial machine that fights the Vietnam war and exploits the rest of the world”.³⁵ Hockin does not explain how the U.S. exploited the rest of the world in 1972. His language, however, demonstrates a clear anti-American fervor in Canada by the economic nationalists in the energy sector. Hockin used the

33. Corporations and Labour Union Returns Act. “How much of Canada is Foreign-Owned?” in *Canada and the U.S.: Continental Partners or Wary Neighbours?* ed. Richard P. Bowles and James L. Hanley, Bruce W. Hodgins, George A. Rawlyk (Scarborough, Ontario: Prentice-Hall of Canada, 1973), 16.

34. Trudeau, *Memoirs*, 191.

35. Thomas Hockin, “The Energy Nationalists,” in *Canada and the U.S.: Continental Partners or Wary Neighbours?* ed. Richard P. Bowles and James L. Hanley, Bruce W. Hodgins, George A. Rawlyk (Scarborough, Ontario: Prentice-Hall of Canada, 1973), 231.

example of how in 1959 the Americans almost destroyed the mining business at Elliott Lake located in Ontario. American companies bought plenty of uranium from mining companies at Elliott Lake. As the 1950s progressed, American companies that bought uranium at Elliott Lake found uranium in the U.S. Accordingly, they gradually stopped buying from the Canadian town causing many Canadians to lose their jobs. The betrayal by the Americans at Elliott Lake caused Canadian politicians to begin to question whether it was a good idea to allow American ownership of companies in Canada.³⁶ The issue with Hockin's example is that they do not – or will not – accept the fact that no man or woman can control the price of goods other than the invisible hand of God. Companies can shift the supply source to other areas of the world because it might be cheaper to get the supplies from that region. Economic nationalism cannot change prices.

In defence of the economic nationalists, there has always been skepticism in Canada as to what to do with foreign companies and the Americans. Diefenbaker's Progressive Conservatives in the 1950s despised the American multinational oil companies. They went berserk when the "minister of everything", American-born Liberal minister C.D. Howe allowed Americans to control 51 per cent of a new pipeline for natural gas. From 1942 to 1971, the Social Credit Party controlled the government in Alberta. They allowed multinational oil companies operating in Alberta to pay low royalty payments. In 1971, Progressive Conservative leader Peter Lougheed became premier of Alberta

36. The economic nationalists make a good point. Many families suffered and lost their jobs. But I still think the free-market, by God's will, would help those people find new jobs. Even the government could play a major role in trying to find them employment and help to cover costs for their living until they find them a new job.

with his populist message.³⁷ He was not so worried about multinationals extracting the oil in Alberta; instead, he worried about the day when the oil would run out and the multinationals left. He argued that Alberta needed to diversify its economy by encouraging more small entrepreneurs to start businesses, grow the professional classes such as lawyers, doctors, accountants, and academics; and find new industries to help grow. In essence, Lougheed and his partners who supported his campaign were free-marketers. Even so, they were skeptical of the multinational oil companies. As free-marketers, who were they to say when an oil company could leave or stay?³⁸ In regards to Lougheed's scepticism of the multinational oil companies, he was wrong to think that way. He assumed that the supply of oil was absolutely fixed – just like the federal government. The increased world price for oil allows multinational companies to reap more profits: this in turn allows for technological innovation, and the technological innovation may allow for vastly increased supplies, which is beneficial for society as whole. At the end of the day, Lougheed approached the multinationals oil companies with a better perspective: he needed them and they needed his oil. While Lougheed realized that he needed the multinational oil companies to stay in provinces, other politicians wanted them out.

The more radical economic nationalists came from the New Democratic Party. The NDP had a socialist fragment called the Waffle Group. James Laxer

37. English, *Just Watch*, 220-221.

38. English, *Just Watch*, 222.

was the spokesman for the group.³⁹ Laxer and his friends asked Kari Levitt in the 1960s to do some research on foreign ownership of resources in Canada. The Waffle Group funded her project. Hence, she was able to write her groundbreaking book *Silent Surrender*.⁴⁰ Laxer used Levitt's research to further imply the need for economic nationalism in Canada. For example, he argued in favor of any multinational oil company from further exploring for natural gas.⁴¹ Further exploration and the possibility of finding new oil fields meant that American companies increased their share of ownership in the energy sector. In addition, other members in the Waffle Group advocated for greater government ownership of industries in Canada, especially the energy sector. They were highly skeptical of any energy deal with the U.S.⁴² Their ideas sounded great and led the federal government to devise a strategy to appease these radical and horrible economic policies.

In 1973, the federal government created the Foreign Investment Review Agency (FIRA), a terrible decision by the federal government because it hurt Canadians and halted the growth of certain sectors in the Canadian economy. In some sense, FIRA was a tariff designed to disallow foreigners to enter the Canadian market. If we recall, the economic nationalists despised the Americans controlling certain sectors of the Canadian economy, especially the energy sector. Therefore, the purpose of FIRA was to promote Canadian ownership of

39. Hockin, "The Energy Nationalists," 231.

40. See note 39 above.

41. Hockin, "The Energy Nationalists," 231.

42. Hockin, "The Energy Nationalist," 231.

businesses. In addition, FIRA hoped Canada could diversify its trade by creating new trade deals with other countries and depend less on the U.S.⁴³ Trudeau praised FIRA in his *Memoirs*: "... I must confess that I fail to see why this should be regarded as a questionable policy".⁴⁴ He goes on to say that FIRA was a success: "Foreign control of the Canadian economy, as measured by Statistics Canada, fell from 37 per cent in 1971 to 23.6 per cent in 1986 – and American ownership fell from 28 per cent to 17 per cent".⁴⁵ It is unbelievable to read Trudeau praising FIRA. Canadians controlled more of its domestic economy not because they owned more business, but because foreigners were leaving Canada. Foreign investment declined because investors had to fill out vast amount of paper work and felt like their business was not appreciated. For example, American business reduced their investments in Canada by 10 per cent during the years 1974-84.⁴⁶

Before FIRA was created, there were some voices in the media which did not agree with the economic nationalists such as journalist William H. Pugsley. In 1972, he wrote an article for *Canadian Business* in 1972 stating: "The basic trouble with economic nationalism is that it urges isolation.... It resents success instead of trying to emulate it.... Economic nationalism is a retreat, a denial of the

43. Ian A. Stewart, "Global Transformation and Economic Policy," in *Towards a Just Society: The Trudeau Years*, ed. Thomas S. Axworthy and Pierre Elliott Trudeau (Markham, ON: Penguin, 1990), 112.

44. Trudeau, *Memoirs*, 205.

45. Trudeau, *Memoirs*, 205.

46. Plamondon, *The Truth*, 262.

principles that have brought the last century's huge increase in the excess of personal incomes over mere subsistence needs".⁴⁷ In essence, Pugsley argued that economic nationalism isolated Canada and created barriers for economic growth. In his view, Canada's prosperity grew because of trade with the U.S. The economic gains from trade are extremely significant. If Canada stopped trading with the U.S. or other nations, Canadians would be much poorer and suffer. The arguments by the economic nationalists sound good, but their arguments do not hold any water and do not help Canadians increase their standard of living.

Another strong denier of isolationism is economist Thomas Sowell. Throughout his book *Wealth, Poverty and Politics*, he constantly shows examples of how isolationism is a terrible economic policy. He summarizes his thesis with these words: "Among the reasons why various societies coalesce into larger political units at different paces is that some societies are more in communication and interaction with other societies.... and gradually building up ties that create mutual benefits which all have incentives to preserve and expand".⁴⁸ Sowell encourages societies to work with another to create a better standard of living for the community. Isolationism, however, does the opposite by hindering trade between communities.

Nobel Prize winning economist Milton Friedman writes of "private distortions" created by economic nationalists who encouraged politicians to

47. William H. Pugsley, "Economics Defeats Political Dreams," in *Canada and the U.S.: Continental Partners or Wary Neighbours?* ed. Richard P. Bowles and James L. Hanley, Bruce W. Hodgins, George A. Rawlyk (Scarborough, Ontario: Prentice-Hall of Canada, 1973), 234.

48. Thomas Sowell, *Wealth, Poverty and Economics* (New York, NY: Basic Books, 2016), 228.

intervene in the economy. These economic nationalists argued for increased royalties, tariffs, crown corporations, more regulations, and limited trade with the U.S.⁴⁹ He and other free-marketers such as Sowell argue that politicians intervening in the economy cut "... across industry and [were] relatively unconcerned with the consumer's pocketbook".⁵⁰ These politicians hindered growth by creating barriers instead of allowing the market to function freely.

FIRA was a terrible economic policy and the federal government endorsed it. The federal government intervened in the economy by trying to halt foreign ownership of certain sectors. In doing so, relationships between Canada and the U.S. declined. Instead of encouraging trade between Canada and the U.S., FIRA wanted to create borders around Canada and discouraged trade between these two nations. FIRA was a distortion in the economy and Trudeau continued to endorse other radical voices, the environmentalists, a very powerful movement in the 1970s which also went to war against the multinational oil companies.

The Rise of the Environmental Movement

Environment Canada was a new regulative department formed on 11 June 1971 with the intention to investigate matters dealing with Canada's natural resources. Jack Davis, the first minister for Environment Canada, made a speech on 27 January 1971 in the House of Commons highlighting the intentions of this new department. "Our new Federal Department of the Environment", declared

49. Milton Friedman and Rose Friedman, *Free to Choose* (New York: Harcourt Brace Jovanovich, 1980), 17.

50. Milton and Rose Friedman, *Free to Choose*, 194.

Davis to the House, “will be concerned with Canada’s renewable resources.... They must be managed and they must be guarded in a comprehensive way. They must be operated on a sustained yield basis now and in the future”.⁵¹ Davis wanted the House to know that Environment Canada intended to protect Canada’s natural resources and not allow companies to ruin the environment. Oil is not a renewable resource. If Davis was preoccupied with renewable resources he should have been unconcerned with oil. But as Environment Canada grew, the environmentalists began to attack the multinational oil companies because they claimed that the multinational oil companies ruined Canada’s environment.

In 1973, Trudeau launched a new powerful organization called the Environmental Assessment and Review Process (EARP). Political scientist John Roberts, who once was Minister for Environment Canada, praises the EARP: “Undoubtedly the establishment of EARP was a great step forward”. He goes on to say: “In fact, almost all major environmentally significant projects were subjected to the environmental assessment process”.⁵² The multinational oil companies extracted oil from Canada’s environment; therefore, these oil companies had to deal directly with the EARP. It took years of back and forth negotiations to begin any type of exploration for energy.⁵³ The EARP collected data on the possible damages to the environment if an oil company started drilling

51. John Roberts, “Meeting the Environmental Challenge,” in *Towards a Just Society: The Trudeau Years*, ed. Thomas S. Axworthy and Pierre Elliott Trudeau (Markham, ON: Penguin, 1990), 153.

52. Roberts, “Meeting,” 158-59.

53. Eric R. Crouse, *America’s Failing Economy and the Rise of Ronald Reagan* (Cham: Springer Nature, 2018), 60.

operations. “With this knowledge”, writes Roberts, “the government would be able to incorporate environmental protection measures at the design state into resource development projects which it undertook or assisted and, through environmental assessment, to plan projects in an acceptable manner before they were constructed”.⁵⁴ The environmentalists advanced the view that extracting oil was not an “acceptable manner” in providing energy for Canadians. For example, multinational oil companies proposed to ship oil from Alaska along the Pacific coast line, but environmentalists feared a disastrous oil spill in the future. An ecologist from McGill University, Trevor Lloyd, (one of those people that the EARP would have contacted to collect data from)⁵⁵ argued that Northern Canada received low precipitation. Thus if an oil spill occurred, the fresh water in the North cannot be replaced at a rapid rate.⁵⁶ Trudeau reacted to the fears of the environmentalists and established the *Arctic Waters Pollution Act* in 1970. The Act disallowed any tankers carrying oil to operate inside a 100 mile limit with respects to British Columbia’s coast line. In addition, the act disallowed any commercial ships from dumping pollution in the 100-mile limit.⁵⁷

One of the greatest shows of strength from the environmentalists in the 1970s was the cancelation of the Mackenzie Valley pipeline. In 1968 when Trudeau came into power, oil companies found fossil fuel reserves in Prudhoe Bay, Alaska. These companies proposed to build a pipeline from Alaska to the

54. Roberts, “Meeting,” 158.

55. See note 64 below.

56. Hockin, “The Energy Nationalists,” 232.

57. Roberts, “Meeting,” 156.

U.S., but the pipeline would also go through Canadian borders; therefore, these oil companies needed the approval of Canada to do so. As a result, the federal government published a document called the *Pipeline Guidelines* to try to determine the best way to get this new project started. It was Trudeau's first year in office in 1968 and the creation of new pipelines sounded like a good idea for his Liberal party.

Two large oil companies came to Trudeau with their proposals. Verne Horte, the president of Canadian Artic Gas Pipelines Limited wanted to create the longer pipeline, which was about 3,860 KM long making it the longest pipeline in the world. It would go from Alaska all the way down through the Yukon, the Northwest Territories, and Alberta. Robert Blair, president of Foothills Pipe Lines Limited, suggested building a shorter pipeline. He wanted the pipeline to stop in Alberta thus keeping the natural gas extracted for the Canadian market only. His plan would have been built faster, in about six to seven years. However, in an interview with CBC, he was deeply worried about the "regulatory authorities" halting the pipeline and adding years to the construction because of red tape.⁵⁸

Trudeau instructed Justice Thomas Berger to investigate the consequences of building a pipeline in the north-west part of Canada. On 9 May 1977, after numerous hearings with local communities near the proposed pipelines, Justice Berger released a report suggesting the federal government to not allow the building of any pipelines. He worried that if the creation of a natural gas pipeline

58. Mackenzie Valley Pipeline Proposals. The Canadian Encyclopedia, last modified March 21, 2018, <https://www.thecanadianencyclopedia.ca/en/article/mackenzie-valley-pipeline>.

were a success, then the energy companies would build an oil pipeline along the same route. The creation of multiple pipelines needed new infrastructure to be built. For example, new roads needed to be built along the pipeline route, the creation of airports to move around employees, and new maintenance buildings to house equipment. Towns that were once isolated would have been connected to the economic boom created by the pipelines. In sum, the area around the pipelines would have seen a drastic change. No longer would towns along the pipeline route be remote and isolated, but these towns would have become industrialized and modernized.⁵⁹ However, the economic benefits of building the Mackenzie Valley pipeline were not enough to convince Trudeau to start the project.⁶⁰ Much of the opposition came from the Native tribes and the environmentalists. In their view, the protection of the land and animals were more important than providing work for thousands of Canadians.⁶¹ The anti-pipeline arguments by the Native tribes and the environmentalists were weak. Canadians needed and continue to need energy for many things such as heating their homes and fueling their cars. Oil is a much needed resource and needs to be extracted from the ground. The Native tribes of Canada must start to think about other Canadians as well, and not just their specific tribe and land. All Canadians should have the right to benefit from God's blessing: He gave Canada oil to be used and shared.

59. CBC News, "Mackenzie Valley pipeline: 37 years of negotiation," *CBC/Radio-Canada*, December 16, 2010, <https://www.cbc.ca/news/business/mackenzie-valley-pipeline-37-years-of-negotiation-1.902366>.

60. Roberts, "Meeting," 159.

61. CBC News, "Mackenzie Valley," <https://www.cbc.ca/news/business/mackenzie-valley-pipeline-37-years-of-negotiation-1.902366>.

Trudeau Works His Magic

The rise of the economic nationalists and the environmentalists put the federal government into a difficult position in 1973, especially after the oil shock. On 22 November 1973, Trudeau went on TV to finally admit his government had no energy policy. He warned Canadians that there was enough oil to only last the winter. Canadians began to panic. Even worse, an industry spokesman from the energy sector alarmed Canadians by saying the oil reserves were running out in Canada. Trudeau had to act quickly and figure out a new national energy policy. He called a Cabinet meeting on 27 November to discuss the energy issue. During these Cabinet meetings, Trudeau enjoyed himself since he was going to be the one to solve the energy crisis. In his view, it was entertaining to see his Cabinet officials debate the future of the energy sector in Canada. After six meetings with his Cabinet, Trudeau favored the left-wingers and announced on live television his new policy towards energy to Canadians on 6 December.⁶² Trudeau's new National Oil Policy managed to win the approval of Canadians. He assured Canadians that his government planned on finding new oil reserves, and hopefully, by the end of the decade, Canada would be able to fully rely on itself for oil. Two tasks needed to be completed, he argued, in order to achieve "Canadian self-sufficiency in oil". First, the construction of pipelines; and second, the creation of a new crown corporation called Petro-Canada was needed to compete with the multinational oil companies.⁶³ On 10 December, the NDP and

62. Gwyn, *The Northern Magus*, 153.

63. John T. Saywell, *Canadian Annual Review of Politics and Public Affairs 1974* (Toronto: University of Toronto Press, 1975), 380.

the Conservatives were satisfied with Trudeau's new energy policy and it passed in the House of Commons.⁶⁴

To conclude this chapter, Trudeau's energy policy lasted until 1980.⁶⁵ His goal to create a pipeline from Sarnia to Montreal was completed in 1976.⁶⁶ He intended the Mackenzie Valley pipeline to be created as well,⁶⁷ however, as previously mentioned, by the end of the 1970s the EARP and Justice Berger convinced Trudeau to abolish that plan. He promised to keep low prices for oil without imposing price controls. This he did complete by meeting with Lougheed in late January 1974. The world price for oil stood at 9.60 dollars (US) per barrel. Lougheed caved in and agreed for the price of oil coming from Alberta to stay at 3.80 dollars (US) per barrel, well below the world price for oil. In sum, Central and Atlantic Canada applauded Trudeau, while Albertans had this to say to the federal Liberals: "Let the Eastern bastards freeze in the dark".⁶⁸ Even with Western Canada despising Trudeau, he managed to convince enough Canadians that he did the right thing. As a result of his handling of the October 1973 energy crisis, Canadians gave his federal Liberals a majority government in 1974. In other words, the Canadian electorate approved of the federal government constantly intervening in the free-market. With so many questionable economic

64. Gwyn, *The Northern Magus*, 154.

65. Gwyn, *The Northern Magus*, 154.

66. Lalonde, "Riding," 55.

67. Saywell, *Canadian Annual Review*, 380.

68. English, *Just Watch*, 227.

decisions during the 1970s, like the creation of FIRA and the EARP, Trudeau played the role of a magician quite well. His economic policies during the 1970s tricked Canadians by making them assume that Canada was heading in the right direction, when in fact, this was not the case as the next chapter will show.

Chapter 2

The Welfare State and Government Intervention

After 1974, the Canadian economy began to spiral downwards. The inflation disease began to spread and infect all sectors of the Canadian economy. Trudeau tried to solve the issue of inflation by devising different interventionist policies. On Thanksgiving Day in 1975, the federal government imposed a price control program to try to stop inflation. In 1980, after the Iranian Revolution, world prices for oil soared and again the federal government intervened in the economy hoping to keep the domestic price for oil low. During his majority mandate after 1974, Trudeau began to assault the free-market system; this explains the reason why he spent billions of dollars on his socialistic experiment of redistributing wealth around Canada. This chapter will show that the federal policy of redistributing wealth around Canada was a failure; and the multiple times of government intervention in the economy in the latter 1970s and early 1980s was a failure as well.

Government Spending and DREE

One of the key objectives for the federal government during Trudeau's time in power was the redistribution of wealth among the provinces. The federal government created a redistribution program¹ in 1968 called the Department of Regional Economic Expansion (DREE) which sought to help Canadians living in low income provinces.² Trudeau and most of his Cabinet argued that it was not fair for some areas to generate wealth, while some areas lacked economic growth. Lloyd Axworthy, who holds a Ph.D. from Princeton University and served in Trudeau's Cabinet, writes: "In short, economic disparity and inequities in economic opportunity continued to plague the nation".³ Thus, he believed that the federal government "should bring jobs to people, rather than forcing people to go to the jobs".⁴ This idea seemed as if it worked well with Trudeau's Just Society; he wanted the poorer provinces to become wealthier. Instead of allowing citizens of Atlantic Canada to leave and go to the economic hotspots, Trudeau and his Cabinet wanted to grow the economies of the poorer areas such as Atlantic Canada. This was done by taking wealth from other provinces and redistributing it

1. Marc Lalonde, "Riding the Storm: Energy Policy, 1968-1984," in *Towards a Just Society: The Trudeau Years*, ed. Thomas S. Axworthy and Pierre Elliott Trudeau (Markham: Penguin, 1990), 56.

2. Marc Lalonde, "Riding," 57.

3. Lloyd Axworthy, "Regional Development: Innovations in the West," in *Towards a Just Society: The Trudeau Years*, ed. Thomas S. Axworthy and Pierre Elliott Trudeau (Markham: Penguin, 1990), 242.

4. Axworthy, "Regional Development," 243.

to the poorer areas in the mistaken belief that wealth redistribution and wealth creation are the same.

DREE granted loans to certain poor areas and infrastructure was supposedly built to provide employment, but political considerations vastly outstripped economic considerations. DREE hoped that by beginning to develop poor areas, the private sector would see the economic signals and come join in the economic expansion.⁵ The objectives of DREE sounded great in theory, however, in reality, it did not produce the desired results. One of the flaws in DREE was it rewarded poor areas for remaining poor. The federal government issued grants for poorer areas. Once these areas achieved the required standard of living, they did not receive any more money. So, provinces and their citizens living in poor areas realized it might be best to just continue receiving grants. Premiers from Atlantic Canada did not want to pay for social programs; they much preferred the federal government to pay for everything. But they needed to remain poor to do so.⁶ Therefore, DREE rewarded grants for poor areas to remain poor. Even worse, the unemployment rate increased in areas where DREE was highly active.

Citizens living in poor areas realized that they did not need to work as hard or as long enough to be awarded government cheques. Many decided to take seasonal employment and then collect unemployment insurance for the remainder of the year. The irony of Trudeau's DREE program is that many economists agree

5. Axworthy, "Regional Development," 242.

6. Kenneth Norrie et al., *A History of the Canadian Economy* 4th Canadian ed. (Toronto: Nelson, 2008), 398.

that during economic downturns the amount of government spending on welfare will increase. In the years 1974-79, however, when the macroeconomic growth occurred, welfare payments increased.⁷ Increased welfare payments led to increased government spending. But the more the federal government spent, the worse the economies of poor areas became because the incentives were distorted. The federal governments Unemployment Insurance (UI) policy which was a perk in the DREE program added to the federal budget. In 1971, when Trudeau changed the UI policy, the government spent about 27 million on UI. By 1984 when he resigned from office, the spending on UI had grown to 2.4 billion.⁸ Furthermore, DREE did not alleviate unemployment even though it cost a considerable amount to operate. By the time Trudeau left office, he had given 1.4 billion to Atlantic Canada and Québec.⁹ Sadly, in 1995, data shows that the standard of living in Atlantic Canada has not increased and it lacks any sign of a sustained economic expansion.¹⁰ DREE, therefore, cost tax payers billions of dollars without much to show for it other than repeated Liberal victories in Atlantic Canada and Québec. This is where the federal government's spending record becomes frightening. In 1968, the federal government spent about 12.3 billion dollars on different social programs. By 1984, the number grew to 106.5

7. Brian Lee Crowley, *Fearful Symmetry: The Fall and Rise of Canada's Founding Values* (Toronto: Key Porter, 2009), 26.

8. Bob Plamondon, *The Truth about Trudeau* (Ottawa: Great River Media, 2013), 236.

9. Plamondon, *The Truth*, 235.

10. Kenneth Norrie et al., *A History of the Canadian Economy* 4th Canadian ed. (Toronto: Nelson, 2008), 416.

billion dollars!¹¹ The policy of redistributing wealth did not work for Trudeau, but it added to the government debt. While Central and Eastern Canada were granted government cheques, some provinces in Western Canada decided to take a different approach.

Provinces residing in Western Canada had a better economic record than provinces from Central and Eastern Canada. From 1970-80, Alberta almost caught up to Ontario in economic output. In 1970, the economic output of Alberta per capita was 65 per cent in comparison to Ontario. However, by 1980, Alberta was at 80 per cent. During the 1970s, over a half million people moved to Alberta and other Western provinces. Alberta's financial sector began to blossom as well. By 1980, Calgary spent over 1.3 billion on office space infrastructure. In addition, Calgary became the second largest financial center in Canada.¹² Alberta's premier Peter Lougheed made wise economic decisions, which contributed to the rising standard of living in Alberta. For example, Alberta's per capita incomes rose, surpassing both Sweden and West Germany. The fast growth and low unemployment rate were helped by the province having the lowest rate of taxes.¹³ Lougheed encouraged businesses to set up shop because they were not going to be taxed heavily, whereas Trudeau in 1975 increased corporate taxes to fund DREE

11. Plamondon, *The Truth*, 234.

12. Richard Gwyn, *The Northern Magus: Pierre Trudeau and Canadians* (Toronto: McClelland and Stewart Limited), 154.

13. Richard Gwyn, *The Northern Magus*, 154.

and other social programs in Central and Eastern Canada.¹⁴ Clearly, Lougheed was making the right economic decisions whereas Trudeau was not.

The differences in the standard of living between Western and Eastern Canada are striking. In 1976, Saskatchewan and Alberta saw personal incomes rise. In addition, both provinces were almost at full employment: Alberta had 3.9 per cent unemployment and Saskatchewan had 4 per cent unemployment. By contrast, Eastern provinces fared far worse. New Brunswick had 11.7 per cent unemployment, Québec had 8.7 per cent, and Ontario had 6.2 per cent. While Ontario was still doing better than Québec and the rest of Atlantic Canada, Ontario's average incomes began to fall from 13,518 dollars to 12,916 between 1976 and 1978. In addition, Ontario saw the departure of 30,000 citizens.¹⁵ Citizens left because the Ontario economy was failing and not providing strong economic growth. This data shows that the policy of redistributing wealth does not work and it might have been better for the federal government to follow the economic policies originating from Western Canada.

The Inflation Disease

With increased government spending financed by monetary expansion, the prospects of inflation became a reality for the federal government. When Trudeau first took office in 1968, previous governments spent and expanded the welfare state. After World War II, federal governments in Canada made it their obligation

14. Lalonde, "Riding the Storm", 56-57.

15. John English, *Just Watch Me: The Life of Pierre Elliott Trudeau, 1968-2000*, vol.2 (Toronto: Vintage Canada, 2009), 424.

to achieve full employment by fiscal expansion. In 1970, symptoms of the inflation disease began to spread into the Canadian economy. Trudeau was taught that there were government tactics to curb inflation and took the necessary steps to stop it from rising.¹⁶ In defence of Trudeau, he started with the right steps to stop inflation. First, he cut government spending on social programs and reduced the size of the bureaucracy by eliminating 5000 public sector jobs. Next, he urged the Bank of Canada to tighten the money supply and the Bank listened by increasing the lending rate to 7 per cent.¹⁷ With these steps taken by Trudeau, the budget managed to be balanced. Out of all the years in power, he only managed to balance the budget for the 1969-70 period.¹⁸ The balancing of the budget and the reduction of government employees led to the inflation rate decreasing to an annual rate of 3.3 per cent. Out of all the major industrial nations of the world, Canada's inflation rate in 1970 was one of the lowest, all thanks to Trudeau's excellent handling of the economy.¹⁹ After 1970, inflation stabilized. However, in 1973, the OPEC oil supply-side shock alongside an expanding monetary policy caused prices for gas and crude oil to rise substantially.

This began the snowball effect of rising inflation. It should be emphasized that the oil price shocks of 1973 were the first supply-shocks ever experienced in developed market economies. That is to say the supply of oil was low and prices

16. Trudeau handled the economy well in 1969-70.

17. Richard Gwyn, *The Northern Magus: Pierre Trudeau and Canadians* (Toronto: McClelland and Stewart Limited), 180.

18. Crowley, *Fearful Symmetry*, 27.

19. Gwyn, *The Northern Magus*, 180.

rose due to the low supply. Macroeconomic policy makers responded to these shocks as if they were demand shocks. Economist Ian A. Stewart writes of the mistaken belief of the macroeconomic policy makers: “The consensus was based on more than a shared belief in the value of counter-cyclical fiscal policy as a tool to sustain demand and employment”.²⁰ That is to say the federal government used taxation and spending as tools to “sustain demand and employment”.

Macroeconomic policy makers believed that the oil price shock of 1973 could be solved by taxation and increased spending which added to the symptoms of the inflation disease. Other world events also increased inflation as well such as the increased prices for wheat and grain.²¹ The increased prices for wheat and grains was caused by the world-wide economic boom of 1972-73. In some parts of the world, however, there were crop failures which diminished supply; but due to the economic boom of 1972-73 the demand for food increased therefore raising prices.²²

At first, the rising prices for food such as wheat and grain benefited Canadians. Crops did fairly well in Canada, therefore the balance of trade switched in Canada’s favor. More nations bought food from Canada, which created more economic growth and more jobs for Canadians.²³ When prices rise

20. Ian A. Stewart, “Global Transformation and Economic Policy,” in *Towards a Just Society: The Trudeau Years*, ed. Thomas S. Axworthy and Pierre Elliott Trudeau (Markham: Penguin, 1990), 114.

21. Stewart, “Global Transformation”, 113.

22. Gwyn, *The Northern Magus*, 183.

23. Stewart, “Global Transformation,” 113.

for products commonly bought like groceries, economists call this an increased inflation rate. When people demand products, and there is not enough in supply, relative prices generally rise for those demanded products such as food. “Without a corresponding increase in the volume of output”, writes economist Thomas Sowell, “the prices of existing goods and services simply rise because the quantity demanded exceeds the quantity supplied at current prices and either people bid against each other during the shortage or sellers realize the increased demand for their products at existing prices and raise their prices....”²⁴ In a perfect world, there would always be enough products supplied at the right price. However, Nobel Prize winning economist Friedrich Hayek argued in 1936 that there can never be a perfect market; in other words, there can never be the perfect amount of products at perfect prices. He used the example of different trades-people building homes and home buyers buying the homes. In a perfect economy, the amount of homes will always correspond with the amount of homes built. Since the world is Fallen, different scenarios may occur that disrupts the market. For example, a hurricane wipes out some homes, building materials get lost, labour disputes, and so on.²⁵ Transitioning back to the 1973 crop failures, Hayek’s theory makes perfect sense. There will be times when crops fail, frustrated Middle Eastern leaders may halt production, or a bad Canadian winter delays construction projects. These unexpected events may cause supply-shocks like the oil shock of

24. Thomas Sowell, *Basic Economics: A Common Sense Guide to the Economy*, 5th ed. (New York: Basic Books, 2015), 366.

25. Nicholas Wapshott, *Keynes Hayek: The Clash that Defined Modern Economics* (New York: W.W. Norton & Company, 2011), 179.

1973. Instead of weathering out the storm, the federal government felt obliged to do something about it. Trudeau tried to stop inflation with all the tools in his pocket, but the one issue that plagued him is he kept on spending. Inflation was a shock in the economy, yet he did not cut back spending, which increased inflation.²⁶ By 1974, inflation was a serious issue in the Canadian economy and all the electoral candidates made inflation the prime issue in the political platforms during the 1974 federal election.

Much of the Canadian media focussed on the inflation issue.²⁷ Canadians were right to be fearful. The Consumer Price Index (CPI), an indicator of how much purchasing power Canadian money has, began to rise in 1972. In the previous year, the CPI was 3 per cent, usually the right amount for any well-functioning economy. In 1972, it rose to 5 per cent, causing some alarm, but not chaos. Then it rose to almost 8 per cent in 1973, and to 11 per cent in 1974 causing Canadians to panic, especially the lower income classes.²⁸ Inflation hurts the lower classes more because they generally do not make much money: an increase in the price of products but not having an increase in wages will hurt the lower income classes.

In 1974, Trudeau campaigned promising that the Liberals were the ones that would stop inflation. Robert Stanfield, the leader of the Progressive Conservatives, campaigned hard for wage and price controls. Trudeau and his

26. Stewart, "Global Transformation," 115.

27. Jon H. Pammett et al., "The Perception and Impact of Issues in the 1974 Federal Election," *Canadian Journal of Political Science* 10, no. 1 (1997): 102.

28. Plamondon, *The Truth*, 270.

Finance Minister John Turner argued against controls. These famous words by Trudeau haunted him throughout his reign in power. He said inflation could not be stopped just by pointing a finger and stating “Zap, you’re frozen”.²⁹ Trudeau and Turner were right in opposing controls. In the U.S., wage and price controls failed. “The United States got itself into a depression with wage and price controls”, argued Turner.³⁰ As soon as the wage and price controls went into law in the 1970s in the U.S., “ranchers stopped shipping their cattle to the market, farmers drowned their chickens, and consumers emptied the shelves of supermarkets”.³¹ Ironically, the Americans applauded Republican president Richard Nixon’s wage and price control policy. His interventionist policy occurred in 1971, and in 1972 he won a land-slide election, an indication that Americans approved of his “counterproductive policy”.³² Canadians as well were not opposed to wage and price controls. In 1970, when inflation first began to spread in the Canadian economy, a survey was conducted on Canadians whether they wanted forms of controls in the economy. Over 59 per cent of Canadians favored some type of controls in the market. Both Americans and Canadians did not understand that inflation was caused by excessive monetary policy; it was not the fault of the consumers for the rise of inflation, but the fault of the politicians.³³

29. English, *Just Watch*, 237.

30. Plamondon, *The Truth*, 272.

31. Sowell, *Basic*, 416.

32. Sowell, *Basic*, 415.

33. Stewart, “Global Transformation,” 115.

In the 1974 federal election campaign, however, Trudeau managed to convince Canadians that controls do not work. When asked if they still prefer controls, a 1974 poll showed that 44 per cent of Canadians did not want them.³⁴ With the Canadian electorate beginning to believe Trudeau's economic message, Canadians decided to vote him into power with a majority mandate in 1974. This was a great victory for Trudeau; he campaigned with Turner on the negative effects of wage and price controls and convinced Canadians that they were not going to implement these sorts of controls.

One year into his new majority mandate, inflation continued to rise. In 1975, the inflation rate peaked at 11 per cent. In addition, the unemployment rate began to rise as well. The unemployment rate jumped from 5 per cent to 7 per cent. It was orthodox economic belief at that time that inflation could never rise with unemployment. The new era of stagflation entered Canada.³⁵ Trudeau, being raised as a Keynesian in economics, was baffled at the new era of stagflation. It was time for him to take action to counteract this deadly disease.

There were three options presented to Trudeau. In his *Memoirs*, he describes these options clearly. His first option "was to continue our policy of exhorting business and labour to reduce their expectations voluntarily".³⁶ What he meant was in 1974-75, Turner went around the business community and tried to negotiate with the private sector on reducing money prices or try to convince

34. Gwyn, *The Northern Magus*, 193.

35. Wapshott, *Keynes Hayek*, 245.

36. Pierre Elliott Trudeau, *Memoirs* (Toronto: McClelland & Stewart, 1993), 192.

them not to increase money prices on their products. The Finance Minister faced difficulties in these negotiations. Trudeau describes these difficulties: “[W]hen people expect higher interest rates, you get inflation, when people expect higher prices or higher wages, you get inflation”.³⁷ The constant negotiations between Ottawa and the business sector failed.

Unions, on the other hand, profited by the negotiations and tried to pinch every dollar from Ottawa. Joe Davidson, the Union leader representing teachers in Ottawa said “to hell with the public”.³⁸ He did not care that increased wages might further add to the inflation. His union managed to get a 34 per cent raise in 1974. If workers from other unions did not receive wage increases, they went on strike. Out of all the leading industrial nations, Canada in 1974-75 led in the amount of days workers went on strike.³⁹ Clearly, the policy of trying to settle wage disputes did not work. The unions planned on always demanding more and more in wage increases.

The second option Trudeau mentions in his *Memoirs* was constraining the amount of money supplied by the Bank of Canada. This option meant telling Canadians that the government planned on enforcing a recession in hopes to control the rising inflation. Trudeau opposed this policy. “With unemployment already at seven per cent”, he argued, “we believed the cost of a policy-induced recession would be too high”.⁴⁰ In his *Memoirs* he forgets to mention that in 1970,

37. Trudeau, *Memoirs*, 192.

38. Gwyn, *The Northern Magus*, 181.

39. Gwyn, *The Northern Magus*, 181.

40. Trudeau, *Memoirs*, 192.

when inflation rose, he imposed these measures and Canadians re-elected him in 1972. Nevertheless, all signs began to suggest that wage and price controls might be the best option in 1975. In defence of Trudeau and Turner, both men opposed price controls in the economy. They ran their 1974 federal election on that promise and hoped to not have them imposed on the Canadian people.⁴¹

A Broken Promise: Trudeau's Attack on the Free-Market

Trudeau's Cabinet began to influence Trudeau to lean more on the idea of controls, and as 1975 began, tensions brewed between Trudeau and Turner. In 1974-75, Turner warned that government expenditures financed by printing money stimulated inflation. Trudeau responded by telling him that increased government spending and lowering of taxes would boost the economy and help lower inflation. He said this in 1974, and by 1975, government spending increased by 27.7 per cent and as Turner predicted, inflation grew as well.⁴² In January 1975, Trudeau began to realize that he and Turner did not see eye to eye on the issue of government spending: Trudeau wanted to spend; Turner did not. As a result, Trudeau began the year by seeking financial advice from voices outside the Finance Department. This act by Trudeau undermined the Finance Department, which caused people to question the stability of the federal government. On 28 January, when the public discovered Trudeau's secret meetings with different economists, the *Montreal Star* stated: "... to establish a

41. Trudeau, *Memoirs*, 192.

42. Plamondon, *The Truth*, 272.

panel of economic advisors without telling the Minister of Finance is as baffling as it is typical of the Prime Minister's style. That sort of action does more than simply reflect Mr. Trudeau's well-known personal insensitivity, the snub helps weaken the credibility of the Finance Minister, and thus, of the government".⁴³ Turner felt isolated and betrayed by Trudeau's secrecy. Only because Turner threatened to resign did Trudeau abandon his plan of setting up a personal "Council of Economic Advisers".⁴⁴

As the year progressed, Trudeau began to isolate Turner and other members of his Cabinet. Turner and other economic conservatives like Jean Chrétien argued for the government to spend less and decrease the size of the government.⁴⁵ Furthermore, there were also internal disputes in the Finance Department. The more conservative Deputy Minister of Finance Simon Reisman did not like how Turner went away on trips to the International Monetary Fund to deal with oil matters. He also did not approve the idea of Turner's negotiations between the private and public sector, an idea that Turner supported in 1974. However, both Reisman and Turner did agree that the federal government needed to stop spending.⁴⁶ Before 1975 started Reisman quit his post as Deputy Minister of Finance. Jim Grandy, another supporter of Reisman's views, quit his post as Deputy Minister of Industry, Trade, and Commerce. Trudeau's federal

43. English, *Just Watch*, 280.

44. Gwyn, *The Northern Magus*, 187.

45. English, *Just Watch*, 277.

46. English, *Just Watch*, 278.

government began to come crashing down all because he did not listen to other conservative voices in his Cabinet.⁴⁷

On 23 June, the budget released by the Finance Department did not address the issues of Reisman and other economic conservatives. It was by this time that Trudeau began to believe that wage and price controls were inevitable. However, he needed to convince the public to support a control program.⁴⁸ Throughout the summer the federal government debated who would step up and announce the control program and how would they convince Canadians that controls were needed.⁴⁹ Realizing the federal Liberals were going to lie to Canadians and back-down from the main campaign promise of not implementing controls in the economy, Turner resigned on 10 September. When asked to comment on why he resigned, he stated: “We campaigned in the 1974 election against wage and price controls and Trudeau brought them in over my objections. I told him the voters had been deceived and I won’t be part of it”.⁵⁰ In response to Turner, Trudeau said: “You can tell me I handled it badly, tell me I should have got down on my knees and begged him to stay. But that’s not the way I saw politics, then or now”.⁵¹ In the view of Gwyn, Trudeau’s response demonstrated a lack of understanding of politics. “By this encounter”, he writes, “Trudeau

47. English, *Just Watch*, 279.

48. Plamondon, *The Truth*, 272.

49. English, *Just Watch*, 281.

50. Plamondon, *The Truth*, 272.

51. Trudeau, *Memoirs*, 194.

demonstrated that after a decade in politics, he knew hardly anything about politics: that politics is about relationships between people and about very little else”.⁵² The act by Trudeau to allow the conservative voices in his Cabinet to leave hurt his image in the eyes of Canadians; they did not know what to believe anymore.

When Donald Macdonald replaced Turner as Finance Minister, Trudeau hoped that he would not implement controls. In his *Memoirs*, Trudeau mentions that Macdonald approached him “very shortly after” the Turner resignation and told him bluntly: “There’s no choice”.⁵³ The stage was set for Canadians to witness Trudeau’s backtracking on a major campaign promise. In the words of Trudeau: “I had to swallow my doubts – and my words”.⁵⁴ On 13 October, almost a month after Turner resigned, while Canadians were at home enjoying Thanksgiving Day, Trudeau announced on live television to put away the good turkey and get ready to “swallow strong medicine”.⁵⁵ “We need to cool the fires of inflation”, he argued.⁵⁶ He announced the creation of the Anti-Inflation Board (AIB). The wage settlements between unions and the private and public sectors now were based on steady rising inflationary expectations. Therefore, the AIB set limits on the amount of wage and price increases allowed by federal and large

52. Gwyn, *The Northern Magus*, 188.

53. Trudeau, *Memoirs*, 196.

54. Trudeau, *Memoirs*, 196.

55. Gwyn, *The Northern Magus*, 192.

56. Gwyn, *The Northern Magus*, 192.

companies. The companies under regulation were: Crown Corporations like Air Canada, companies with over 500 employees, and construction companies with over 20 employees. These regulated companies were not allowed to increase wages by more than 10 per cent. In addition, prices for their products and services had to remain reasonable. They were not allowed to have profit margins over 95 per cent when selling their products and services.⁵⁷ The AIB hoped to reduce inflation by 2 per cent each year. By the third year of the control program, Trudeau promised to eliminate them.⁵⁸

In his *Memoirs*, Trudeau said his control program worked: “From a rate of nearly 11 per cent in 1975, inflation declined to 7.5 per cent in 1976 and 7.9 percent in 1977”.⁵⁹ In *A History of the Canadian Economy*, Kenneth Norrie, Douglas Owram, and J.C. Herbert Emery have a chart on the annual inflation rate from 1973-2005, and inflation did drop after the control program. However, Trudeau does not mention in his *Memoirs* that as soon as he eliminated the AIB in April 1978, the inflation rate began to rise again. It continued to rise each year, reaching its pinnacle in 1981 at 12 per cent.⁶⁰ While the inflation rate did decline during the years of 1975-78, the unemployment rate increased steadily each year as well; unions went ballistic towards the federal government; and the AIB

57. Donald Coxe, “Trudeau Tries Wage and Price Controls,” *National Review*, January 23, 1976, <file:///E:/Tyndale/4th%20Year%201/Trudeau%20Folder/Documents/Sources/Trudeau%20Tries%20Wage%20and%20Price%20Controlls.pdf>.

58. Gwyn, *The Northern Magus*, 192.

59. Trudeau, *Memoirs*, 196.

60. Kenneth Norrie et al., *A History*, 404.

increased the bureaucracy. Therefore, Trudeau's claim is wrong because the inflation rate may have dropped, but the economy continued to suffer: there was too much unrest and chaos after the control program. For example, in 1975, the unemployment rate was under 6 per cent, but by 1978, it increased to over 8 per cent.⁶¹ Therefore while Canadians were able to have some steady prices, some suffered during the control program because they lost their jobs. Only companies with over 500 employees were under the control regulation, thus some companies found loop-holes by laying off workers or outright firing them. As soon as the controls came into place, the unions went on the offensive. For example, postal workers realized they could still strike. They demanded a 20 per cent increase in their pay. After striking for forty-six days, the federal government gave in to their demands, further indicating that the controls program caused unrest in the Canadian economy.⁶² In addition, the AIB increased the bureaucracy which increased government spending. The Finance Department predicted that the AIB needed about 200 workers for the control program. But by 1978, the AIB grew to about 1000 workers. With about 1500 companies employing over 500 workers, the AIB had to manage a substantial amount of paper work and had to work through endless hours of trying to figure out how to manage each case scenario.⁶³ Overall, the control program was a failure. It was initiated because there was a

61. Kenneth Norrie et al., *A History*, 403.

62. Plamondon, *The Truth*, 273-274.

63. Gwyn, *The Northern Magus*, 192.

crisis in the federal government and Trudeau needed to do something to show Canadians that he still was in control.

After the control program, Trudeau began to lose credibility and blamed others as the reason why he had to intervene in the economy. He visited Hamilton, Ontario a few months after the launch of the AIB and stated society was consumed with material wealth, therefore creating inflation.⁶⁴ At the end of the year, when asked by the media what he thought of the free-market system, he answered: “It won’t work, you know. We can’t destroy the big unions and we can’t destroy the multinationals.... But who can control them? The government”.⁶⁵ After this interview aired on 28 December, the business community went wild accusing him of being an emperor and a socialist. In 1976, to add to the fear of some Canadians thinking he was a communist, he went to Cuba in February declaring “Viva Castro”.⁶⁶ Afterwards, his advisors spent the whole year trying to cover up for Trudeau. They urged him to recant. With mounting pressure, he released a document *The Way Ahead* at the end of 1976 declaring that he believed “... Governments can become too pervasive and oppressive actors in the daily lives of Canadians”.⁶⁷ After 1975, Canadians did not believe in Trudeau and the federal Liberals anymore because the economy began to be spiralling downwards.

64. Plamondon, *The Truth*, 273.

65. English, *Just Watch*, 292.

66. Gwyn, *The Northern Magus*, 197.

67. Gwyn, *The Northern Magus*, 198.

Canada's Failing Economy and the NEP

As 1979 began, dark clouds loomed over Trudeau. The economy was heading into a terrible world-wide recession. Unemployment was above 7 per cent and continued to rise. Canadians struggled to take out mortgages. For a new family to take out a 5-year mortgage, they had to pay 18.38 per cent in interest.⁶⁸ The Canadian macro-economy was so bad, new scales to measure the standard of living were created like the Misery Index.⁶⁹ When Trudeau came into power in 1968, the Misery Index was at 10. When he ran in the 1979 election, the Misery Index had doubled to 20. Canadians were not fooled, they saw the reality of the economy, they saw the lies of the federal Liberals, and thus on 22 May 1979, the Progressive Conservatives took power from the Liberals.⁷⁰ Trudeau's loss in 1979 shows that Canadians did not believe in his economic policies.

Joe Clark, the leader of the Progressive Conservatives, took office at the worst possible time. The Iranian Revolution caused oil prices to rise, just like when OPEC raised prices at the end of 1973. In January 1979, the price of oil stood at 14.82 dollars (US) a barrel. By 1980, however, the price of oil almost doubled to 34.50 dollars (US) per barrel.⁷¹ Out of nowhere, everyone became prophets and expected the price of oil to continually climb. Many economists predicted that by 1990, the price of oil would reach above 100 dollars per barrel.

68. Plamondon, *The Truth*, 277.

69. English, *Just Watch*, 484.

70. Trudeau, *Memoirs*, 253.

71. Lalonde, "Riding," 59.

Before the Iranian Revolution, Alberta was almost allowed to sell oil at world prices. Lougheed realized that after the Iranian Revolution, it was not fair for Alberta to sell oil at the new world price of 34.50 dollars (US) a barrel. He offered to sell oil at 75 per cent of the world price. But after failing to get any settled deal with Lougheed, the Clark government fell on 13 December 1979; his budget could not pass in the House of Commons thus triggering another federal election.⁷²

After contemplating whether to retire in politics, Trudeau decided to continue as the federal leader of the Liberal party for the 1980 federal election. Government spending was at an all-time high, but Trudeau did not understand how the federal government spent so much money, yet its influence was weak, and extremely weak in Western Canada.⁷³ Thus his 1980 campaign slogan was: “If you’re the government, you’ve got to govern, and that means making decisions, and we can do it”.⁷⁴ Canadians gave Trudeau another chance. On 18 February 1980, the federal Liberals won a majority government.⁷⁵ But the 1980s also saw the emergence, or re-emergence, of conservative economics throughout the world, an idea quite foreign to Trudeau.

The “Reagan Revolution” of the 1980 revived conservative economics. Republican Ronald Reagan became president in 1981 with the promise to go back

72. Trudeau, *Memoirs*, 262.

73. English, *Just Watch*, 546.

74. Trudeau, *Memoirs*, 269.

75. Trudeau, *Memoirs*, 270.

to the free-market. He brought economic advisors such as Milton Friedman and Allan Greenspan to play leading roles in trying to fix the shattered American economy. Reagan inspired Margaret Thatcher and the Tories in Great Britain to go back to conservative economics in 1979. Her Tories began to attack previous governments and their interventionist policies. They attacked unions, backward state bureaucracy programs which drained the British treasury, and especially market regulations. For Reagan and Thatcher, the capital sin for the government was creating non-needed market regulations.⁷⁶ Here is Trudeau's response to Reagan and Thatcher's conservative ideas: "When I saw Thatcherism and Reaganism... become all the fashion and then spread even to the East European countries, I just felt that this was wrong, wrong, wrong".⁷⁷ In his view, the state had a role to play in the economy. "We fought" he argued, "for a fairer, more humane Canada, in which the power of the government was a necessary instrument in the quest for a more just society".⁷⁸ Again, Trudeau did not listen to the conservative voices. He allowed the more conservative voices to leave his Cabinet in 1975 and in 1980 he continued to attack conservative ideas.

Trudeau was determined to show the power of the government in 1980. With the price of oil rising, he commanded Marc Lalonde, the new Minister of Energy, to solve the energy crisis created by the Iranian Revolution. The price of oil was rising and inflation was rising as well.

76. English, *Just Watch*, 466-467.

77. Trudeau, *Memoirs*, 189.

78. Thomas S. Axworthy and Pierre Elliot Trudeau, "Part I: Introduction," in *Towards a Just Society: The Trudeau Years*, ed. Thomas S. Axworthy and Pierre Elliott Trudeau (Markham: Penguin, 1990), 5.

Lalonde was determined to change the rules of the energy sector. “It became clear” he states, “that the issues of [energy] prices and revenue sharing could not be resolved unless the rules of the game were changed. It was in this spirit that the National Energy Program (NEP) was developed”.⁷⁹ The NEP became the official law of the land on 28 October 1980; the federal government again intervened in the economy trying to solve an economic crisis.

Just like in 1973, the federal government did not allow Alberta to sell oil at world prices. Here it is essential to describe Trudeau’s defence attacking Alberta’s oil industry. The Alberta energy sector was subsidized from 1961-73, a policy initiated by the Progressive Conservative Diefenbaker government. Provinces West of the Ottawa River bought oil at 1.50 dollars (US) above the world price. “In effect”, Trudeau argued, “for most of the period from 1961 to 1973, the producers in Alberta had been subsidized by consumers in other provinces, and this had enabled the oil industry to establish itself in a way that led to Alberta’s prosperity”.⁸⁰ He makes a valid point. In his view, now with world oil prices sky rocketing, it was Alberta’s turn to subsidize the other provinces. Trudeau did manage to strike a deal with Lougheed on 1 September 1981. At first, Lougheed reacted with outrage at the NEP and threatened to stop shipping oil to Atlantic Canada, but he later toned down his rhetoric and came to understand that the federal government was not going to back down. In 1981, they agreed on the Energy Pricing and Taxation Agreement (EPTA): federal revenues from oil

79. Lalonde, “Riding the Storm,” 63.

80. Trudeau, *Memoirs*, 293.

taxation increased to 26 per cent and Alberta decreased its royalty tax to 37 per cent. In all fairness to Trudeau, this was a historic moment for Canadian politics. Two individuals from the opposite political spectrum managed to agree on a policy which tried to help all of Canada.⁸¹

The Americans, however, were not pleased with the NEP. Allan Gotlieb, the Ambassador to the United States, told Trudeau that Reagan did not approve of it.⁸² Trudeau invited Reagan for lunch one day⁸³ and told him: “Look, I won an election on this platform. I don’t tell you how to set the figures of your military budget, you can’t tell me that I can’t have my own energy policy in Canada”.⁸⁴ Reagan threatened Trudeau with the possibility of Canada being kicked out of the G7 club, a respected organization of the most economically powerful countries in the world.⁸⁵ Again, Trudeau’s interventionist policy began to cause unrest; he did not want to listen to the conservative ideas originating from the US. In addition, he did not realize that Canada was a small open economy with little impact on the world economy. It made no sense to go to war against the U.S., a powerful economy and one of Canada’s allies.

Reagan had every right to be angry at Trudeau. The NEP stated that the government was allowed to take back lands owned by the multinational oil companies, including the powerful U.S. multinationals. Since the NEP approved

81. Lalonde, “Riding the Storm,” 67.

82. Plamondon, *The Truth*, 283.

83. This account is from Trudeau’s *Memoirs*.

84. Trudeau, *Memoirs*, 292.

85. English, *Just Watch*, 577.

of Petro-Canada, a Crown Corporation, to compete with the multinationals. But to do so, Petro-Canada needed land to find energy sources. Thus, Petro-Canada was granted rights on 25 per cent of frontier lands in Canada.⁸⁶ Bob Plamondon explains the 25 per cent frontier land clause in the NEP as: "... oil and gas companies had to turn over 25 percent of their properties to the federal government, including established claims that had yet to be developed".⁸⁷ What that meant was some multinational companies had claims on Canadian land: claims defined as a rights of ownership. The NEP, however, took 25 per cent away from those private land owners without compensation.⁸⁸ Lalonde admits that the fairness of this 25 per cent takeover of private land was debated in Cabinet if it should proceed. "Contrarily to the belief of some" he writes, "this matter was never considered an essential part of the NEP, and on several occasions, the government came close to abandoning it".⁸⁹ The worst act for a politician is to admit he or she is wrong, so no wonder Lalonde and Trudeau did not give in to the Americans. They wanted to look like strong Canadians standing up to the multinationals and they did not eliminate the 25 per cent confiscation of private land.⁹⁰ Instead of working with its allies, the federal government caused friction between Canadians and Americans.

86. Lalonde, "Riding the Storm," 66.

87. Plamondon, *The Truth*, 283.

88. English, *Just Watch*, 577.

89. Lalonde, "Riding the Storm," 66.

90. Plamondon, *The Truth*, 284.

While there may be some justification for the taking back of Crown lands for Canadians to use in their pursuit for self-reliance on energy, there is no excuse for Lalonde and his energy program to not allow the price mechanisms to work in the Canadian economy. This was the major flaw in the NEP. Most of the macroeconomic policy makers in the federal government assumed the price of oil would continually rise. “One winces today at how wrong that forecast was, but in 1980 most analysts, including those from the industry, considered that those price projections were not excessive”, writes Lalonde.⁹¹ The federal government believed the price of oil would steadily climb. Instead, the world price of oil collapsed in the early 1980s. At the time, Canada still imported oil from OPEC into Atlantic Canada and needed more sources of revenues to pay for the increasing cost for oil. Therefore, he included in the NEP a Petroleum Compensation Charge⁹² (PGRT) and a Natural Gas and Gas Liquids Tax⁹³ (NGGLT) to help subsidize the costs for imported oil. These two taxes were projected to raise over 11.7 billion dollars in the next three years,⁹⁴ a substantial amount of money if the price of oil continued to rise. When the EPTA agreement was signed between Trudeau and Lougheed,⁹⁵ both of them expected world oil prices to continue rising. Lougheed was allowed to sell oil at a maximum of 75

91. Lalonde, “Riding the Storm,” 70.

92. Brian L. Scarfe, “The Federal Budget and Energy Program, October 28th, 1980: A Review,” *Canadian Public Policy* 7, no. 1 (1981): 6.

93. Lalonde, “Riding the Storm,” 66.

94. Plamondon, *The Truth*, 284.

95. See note 72 above.

per cent of the world price. For this to happen, he gave up less royalties and the federal government was allowed to tax more heavily the oil producers.⁹⁶ But then the unthinkable happened. “But almost as soon as we had signed the agreement”, writes Trudeau, “[world] oil prices began to stabilize and then to drop”.⁹⁷ He goes on to say: “So all our planning went for naught, because we were underwriting subsidies to the Canadian oil companies and lower prices to the Canadian consumers with money we didn’t get”.⁹⁸ The price of oil went back down to 15 dollars (US) a barrel. The EPTA demanded certain payments to “Canadian oil companies” and “Canadian consumers” but the federal government did not have that money since the world price of oil decreased. The PGRT and NGGLT taxes on oil were never going to be able to fund all the subsidization programs agreed in the EPTA. In sum, the EPTA and the NEP was a horrible plan by the federal government.⁹⁹ Brian Mulroney, the next prime minister of Canada after Trudeau, on 27 March 1985 eliminated the NEP by making his own agreements with the different provinces. Plamondon does not shy away from his feelings of the NEP: “It stands as one of the worst public policy decisions of any Prime Minister since Confederation”.¹⁰⁰ One of the saddest parts to the NEP fiasco is the devastation it brought to the Alberta economy.

96. Robert N. McRae, “A Survey of Canadian Energy Policy: 1974-1983,” *The Energy Journal* 6, no. 4 (1985): 59.

97. Trudeau, *Memoirs*, 294.

98. Trudeau, *Memoirs*, 294.

99. Lalonde, “Riding the Storm,” 70.

100. Plamondon, *The Truth*, 287.

Before the elimination of the NEP by Mulroney, the Alberta economy continued to decline. Home prices fell to one third-third by 1984. In 1981, the unemployment rate was 3.8 per cent. By 1984, however, it soared to 11.1 per cent. Investors saw the multinationals leaving, thus investment in the Albertan economy declined by 30 per cent after the NEP.¹⁰¹ A high executive oil baron had this to say about the NEP: “Of all the things that have happened in the last twenty or thirty years to the oil industry around the world, the NEP ranks up there as one of the worst”.¹⁰² In response to this, Lalonde, in a classic political style said: “I am sorry, however, that we could not persuade Albertans that the NEP had sufficient national merit to warrant their support and endorsement”.¹⁰³ Trudeau’s response is classic as well: “At the level of principle, however, I have no regrets about the National Energy Program”.¹⁰⁴

In conclusion, with the macro economy in ruins, Trudeau resigned in 1984. His magic ran out. Canadians could not stand the economic hardships facing them. Trudeau subsidized the Atlantic provinces; yet their standard of living did not rise; he spent billions in the economy, yet unemployment continued to rise; he promised no controls in the economy, yet after he got elected, he imposed them. The federal macroeconomic record after 1975 is brutal and horrifying to read about. Sadly, some conservative voices in the federal government did want the federal government to stop spending, but Trudeau

101. Plamondon, *The Truth*, 286.

102. Plamondon, *The Truth*, 287.

103. Lalonde, “Riding,” 74.

104. Trudeau, *Memoirs*, 294.

ignored their recommendations. Lastly, the NEP was a disaster because it hurt Canada's relations with the U.S. and it destroyed the Albertan energy sector.

Conclusion

Canadians need to look back at the 1970s and early 1980s to see the economic consequences of government spending and government intervention in the economy. During the 1970s and 1980s, the economic policies by the federal Liberals did not grow the economy; instead, it made the economy worse. The federal government did not care much about deficits and the accumulating debt caused by a lax monetary policy.¹ Up until 1975, the federal government managed to maintain a balanced budget, but after 1975, the deficit kept on growing. By 1984, the federal debt grew to 33.7 billion which means that the government was spending more than receiving from taxation.² Instead of fighting inflation by cutting back on spending, the federal government intervened in the economy in 1975 and 1980 by implementing price control programs, but these programs failed to produce the desired results. It was sad to read that there were some politicians in the federal government which advocated to limit government spending, but Trudeau did not bother to implement their suggestions.

Not only did the federal government make unwise economic decisions during the 1970s and 1980s, but it unleashed Canadian economic nationalism and

1. Kenneth Norrie, Douglas Owsram and J.C. Herbert Emery, *A History of the Canadian Economy* 4th Canadian ed. (Toronto: Nelson, 2008), 425.

² Kenneth Norrie et al., *A History*, 425.

environmentalism. Both of these radical groups, the economic nationalists and the environmentalists, attacked Alberta's natural resources and wanted to kick out the multinational oil companies extracting oil in Western Canada. I sympathize with the environmental movement of the 1970s because I believe they truly cared for Canada's environment; but economic nationalism is a sick disease. I will never accept any economic policy which creates walls around a society. In my view, economic nationalism is synonymous with economic tariffs; and economic tariffs enclose a society from trading with other nations: an idea which I found horrifying.

Lastly, what can we say about Trudeau's Just Society? He wanted to create a society based on the principle of "equality of opportunity" for all.³ I truly believe that the federal Liberals led by Trudeau had good intentions; however, the Just Society was like a hungry animal without any sign of ever being full. It needed to be fed constantly; and all it ate was tax-payer dollars. The multiple economic down turns in the 1970s and 1980s is similar to a bad harvest. During a bad harvest, humans tend to eat less. What did the Just Society do? It continued to eat until it began eating itself causing self-destruction. What I am trying to illustrate is that throughout history governments have not realized when enough is enough. Does the government need to solve every problem in the world? The situation in Canada during the 1970s and 1980s was not unique and there needs to be further research done on the failing economies of many Western nations. I

3. Pierre Elliott Trudeau, "The Values of a Just Society," in *Towards a Just Society: The Trudeau Years*, ed. Thomas S. Axworthy and Pierre Elliott Trudeau (Ontario: Penguin, 1990), 359.

suggest multiple books needs to be written with different authors focusing on different parts of the world, and research the different responses by the governments being plagued by different economic problems.

In addition, there needs to be more literature written on Pierre Elliott Trudeau's economic policies during the 1970s and 1980s. I struggled to find any balanced literature on his economic decisions. There are two schools of thought regarding Trudeau: either you love him or you hate him. In one study conducted by *The Beaver*, a history magazine based out of Winnipeg, asked correspondents of their opinions on Trudeau and they voted him as the least favorite Canadian of all time.⁴ In 2006, the *CBC* conducted a nationwide poll asking Canadians who they thought was the most influential Canadian and surprisingly Trudeau ranked third ahead of all the previous prime ministers.⁵ Again, either you love him or you hate him.

I do not know where I rank Trudeau. I have not done enough adequate research on any of the previous prime ministers of Canada. I would love to do further research on the federal economic policies during the Great Depression in Canada. I am assuming the federal government intervened in the economy and my hypothesis would be that government intervention during the Great Depression made it harder for the macro economy to recover. I would also like to do research and see how the Canadian federal government reacted during the Great Recession of 2007 and 2008; and see if the federal policy of giving bailouts to multi-billion-

4. Mills, Allen, *Citizen Trudeau: An Intellectual Biography 1944-1965* (Don Mills: Oxford University Press, 2016), 1.

5. Bob Plamondon, *The Truth about Trudeau* (Ottawa: Great River Media, 2013), 7.

dollar corporations worked. I think it is fascinating to determine what works and what does not for federal governments in their policy-making during an economic crisis. I hope my reader enjoyed reading this research thesis and has learned something new and may go out and continue researching the economic consequences of government intervention in the economy.

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